

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 ISO-00 SP-02 USIA-15 AID-05 NSC-05  
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FM AMEMBASSY MONTEVIDEO  
TO SECSTATE WASHDC 5860  
INFO AMEMBASSY ASUNCION  
AMEMBASSY BRASILIA  
AMEMBASSY BUENOS AIRES  
AMCONSUL SAO PAULO

UNCLAS SECTION 1 OF 2 MONTEVIDEO 0567

E.O. 11652: N/A  
TAGS: EINV, EIND, EFIN, UY  
SUBJECT: STATEMENT ON CLIMATE FOR FOREIGN INVESTMENT

REF: STATE 244738

1. INVESTMENT SETTING. WITH THE POSSIBLE EXCEPTION OF PERIODS WHEN FOREIGN-OWNED UTILITIES WERE BEING NATIONALIZED EARLIER IN THIS CENTURY, URUGUAY HAS RETAINED AN OPEN ATTITUDE TOWARD FOREIGN INVESTMENT. THE PREDOMINANTLY MIDDLE-CLASS POPULATION AND MIXED EUROPEAN BACKGROUND COMBINED TO MAKE THE ISSUE OF INCOMING FOREIGN CAPITAL RELATIVELY LESS SENSITIVE THAN IN OTHER AREAS OF THE CONTINENT. IT WAS AGAINST THAT BACKGROUND THAT THE GOVERNMENT ARGUED THAT IT HAD NO NEED FOR OPIC PROGRAMS TO PROVIDE ASSURANCE AGAINST ARBITRARY ACTION TOWARD FOREIGN INVESTORS. RECENT HISTORY SHOWS LITTLE TO SUGGEST THE OFFICIAL VIEW WAS NOT ON POINT, ALTHOUGH BUREAUCRATIC AND ADMINISTRATIVE DIFFICULTIES FOR AN INVESTORY HAVE PERSISTED WITHOUT REGARD TO NATIONALITY.

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2. THE FOREIGN INVESTMENT LAW (19249) OF MARCH 28, 1974, WAS FOSTERED AS PART OF A DRIVE TO OPEN THE URUGUAYAN ECONOMY TO GREATER INTERNATIONAL TRADE AND TO DRAW IN THE TECHNOLOGY AND INTERNATIONAL MARKET CONTACTS OF INTERNATIONAL FIRMS. THE LAW AND ITS SUBORDINATE REGULATIONS ARE CONSIDERED BY LOCAL AMERICAN BUSINESSMEN TO BE AMONG THE MOST LIBERAL IN LATIN AMERICA. THE LAW

GUARANTEES THE REMITTANCE ABROAD OF COMPANY PROFITS CORRESPONDING TO FOREIGN CAPITAL. WHEN THE PROFITS REMITTED ANNUALLY EXCEED 20 PERCENT OF THE REGISTERED FOREIGN CAPITAL A TAX OF 40 PERCENT MUST BE PAID ON THE EXCESS. REMITTANCES OF PROFITS BELOW THIS LIMIT ARE NOT SUBJECT TO THIS SPECIAL TAX.

3. THE LAW GUARANTEES REPATRIATION OF INVESTED CAPITAL AFTER THREE YEARS, EXCEPT IN THOSE CASES WHERE SPECIAL CONTRACTS WITH THE GOVERNMENT GOVERNING SPECIFIC TERMS OR BENEFITS FIX LONGER REPATRIATION TERMS. CAPITAL WITH THE RIGHT OF TRANSFER ABROAD IS DEFINED AS THAT INITIALLY BROUGHT INTO URUGUAY PLUS CAPITALIZED NET PROFITS, LESS THE CAPITAL ALREADY TRANSFERRED AND LESS NET LOSSES.

4. THE GOVERNMENT HAS CAREFULLY AVOIDED SETTING PRECISE FORMULAS FOR "ACCEPTABLE" DEGREES OF FOREIGN OWNERSHIP AND IN PRACTICE HAS AVOIDED IMPOSING PARTICIPATION REQUIREMENTS OR EXCLUDING 100 PERCENT FOREIGN OWNERSHIP IN NEW INVESTMENTS.

5. THE INVESTMENT LAW RESTRICTS THE USE OF CREDIT BY FOREIGN CAPITAL COMPANIES. THOSE COMPANIES IN WHICH 50 PERCENT OR MORE OF TOTAL INVESTED CAPITAL ORIGINATED FROM A FIRM INCORPORATED ABROAD MAY NOT USE MEDIUM AND LONG TERM INTERNAL CREDIT AND, TO USE EXTERNAL CREDIT, UNCLASSIFIED

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THOS COMPANIES MUST OBTAIN GOVERNMENT CONSENT. SUCH COMPANIES, HOWEVER, CAN MAKE USE OF SHORT TERM (NOT EXCEEDING ONE YEAR) INTERNAL CREDIT.

6. TO INVEST UNDER THE LAW, PREVIOUS AUTHORIZATION MUST BE OBTAINED FROM THE GOVERNMENT WHICH RESTS ON WHETHER THE PROJECT IS IN THE NATIONAL INTEREST AS DEFINED BY THE BASIC OBJECTIVES EXPRESSED IN THE NATIONAL SOCIAL AND ECONOMIC DEVELOPMENT PLAN (FIVE YEAR PLAN). FOREIGN INVESTMENTS DESTINED FOR THE FOLLOWING ACTIVITIES ALSO REQUIRE COUNCIL OF MINISTERS AUTHORIZATION: ELECTRIC POWER GENERATION, HYDROCARBONS, BASIC PETROCHEMISTRY, ATOMIC ENERGY, EXPLOITATION OF STRATEGIC MINNERALS, AGRICULTURE, MEAT PACKING, FINANCE, RAILWAYS, TELECOMMUNICATIONS, RADIO, PRESS, TELEVISION, AND THOSE ACTIVITIES ASSIGNED BY LAW TO GOVERNMENT ENTITIES.

7. IF A COMPANY DOES NOT WISH TO COME UNDER THE REGIMEN OF THE FOREIGN INVESTMENT LAW, OR IF THE INVESTMENT IS NOT APPROVED BY THE GOVERNMENT WITHIN THE LAW'S FRAMEWORK EVEN THOUGH THE INVESTMENT IS NOT PROHIBITED, IT WILL NOT ENJOY THE PERMANENT GUARANTEE OF PROFIT REMISSION.

HOWEVER, AS A RESULT OF THE GOVERNMENT'S FREEING OF THE FINANCIAL EXCHANGE MARKET IN SEPTEMBER 1974, A FIRM CAN IN PRACTICE FULLY REMIT CAPITAL AND PROFITS EVEN IF THE INVESTMENT IS NOT MADE WITHIN THE FRAMEWORK OF THE INVESTMENT LAW. FURTHERMORE, CREDIT RESTRICTIONS AND THE SPECIAL TAX OF 40 PERCENT ON PROFIT REMITTANCES EXCEEDING IN ANY ONE YEAR 20 PERCENT OF FOREIGN CAPITAL WOULD NOT BE APPLICABLE.

8. THE RIGHTS AWARDED UNDER THE FOREIGN INVESTMENT LAW (FIL) ARE CUMULATIVE WITH THE RIGHTS GRANTED UNDER THE URUGUAYAN INDUSTRIAL PROMOTION LAW (IPL) OF MARCH 28, 1974. THE PROMOTIONAL MEASURES IN THE IPL ARE GRANTED, AGAIN, ONLY IF THE CURRENT OR PROPOSED ACTIVITY OF THE INTERESTED COMPANY --OR IN SOME CASES THE SECTOR AS A WHOLE-- HAS BEEN UNCLASSIFIED

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PREVIOUSLY DECLARED TO BE IN THE NATIONAL INTEREST BY THE EXECUTIVE POWER. TO BE DECLARED IN THE NATIONAL INTEREST A COMPANY MUST SUPPORT ONE OR MORE OF THE FOLLOWING STATED NATIONAL OBJECTIVES: 1) TO REACH MAXIMUM PRODUCTION AND MARKETING EXPERIENCE BASED ON ADEQUATE LEVELS OF TECHNOLOGY AND QUALITY; 2) TO INCREASE AND DIVERSIFY EXPORTS OF INDUSTRIALIZED GOODS WHICH INCORPORATE THE HIGHEST POSSIBLE

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VALUE ADDED INTO THEIR CONSTITUTENT RAW MATERIALS; 3) TO ATTRACT NEW INDUSTRIES AND EXPAND OR REFORM EXISTING ONES, TAKING BETTER ADVANTAGE OF AVAILABLE RAW MATERIALS AND MANPOWER; 4) TO ENCOURAGE SELECTED TECHNICAL RESEARCH PROGRAMS, DIRECTED TOWARD THE ECONOMIC USE OF HERETOFORE NONEXPLOITED NATIONAL RAW MATERIALS, AND TO IMPROVE ON NATIONAL PRODUCTS AND TRAIN TECHNICIANS AND WORKERS.

9. THERE ARE TWO MAJOR PROMOTIONAL BENEFITS CONTAINED IN THE IPL. FIRST, CREDIT ASSISTANCE IS AVAILABLE THROUGH THE CENTRAL BANK IN THE FORM OF LOCAL AND FOREIGN CURRENCY LOANS FOR THE PURCHASE OF EQUIPMENT, MACHINERY AND DOMESTIC RAW MATERIALS, MODERNIZATION AND/OR EXPANSION OF EXISTING INDUSTRIES AND LOANS TO FINANCE ACCUMULATED TAX DEBTS ARISING FROM THE INEFFICIENCY OR UNPROFITABILITY OF AN INDUSTRY WHICH IS EXPECTED TO BE CORRECTED BY THE APPLICATION OF THIS LAW. SECONDLY, TAX EXEMPTIONS ARE PROVIDED; FOR EXAMPLE, FROM TAXES ON A COMPANY'S INCOME AND FROM PORT TARIFFS AND FISCAL LIABILITIES ARISING FROM IMPORTATIONS (SURCHARGES, CONSULAR FEES AND CUSTOMS UNCLASSIFIED

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DUTIES). REBATES ALSO ARE GIVEN FOR PORTIONS OF THE SOCIAL SERVICE CHARGES PAID TO THE STATE, ALTHOUGH THIS DEVICE HAS BEEN THE SUBJECT OF U.S. COUNTERVAILING DUTY ACTIONS.

10. U.S. INVESTMENT IN URUGUAY. ACCORDING TO LOCAL AMERICAN BUSINESSMEN AND EMBASSY ESTIMATES, U.S. INVESTMENT IN URUGUAY IS APPROXIMATELY \$100 MILLION. ABOUT HALF OF THIS INVESTMENT IS CONCENTRATED IN THE MANUFACTURING SECTOR, MOST NOTABLY IN TEXTILES, AUTOMOBILE ASSEMBLY, SHOES AND CEMENT PRODUCTION. U.S. COMMERCIAL BANKS, SERVICE-ORIENTED FIRMS, IMPORTERS, EXPORTERS, AND LOCAL SALES AGENTS COMPRISE THE NUMERICAL MAJORITY OF U.S. INVESTORS IN URUGUAY. THERE HAVE BEEN FEW INVESTMENT DISPUTES OVER THE PAST TEN YEARS, ALTHOUGH NEITHER HAS THERE BEEN A SIZABLE FLOW OF NEW FOREIGN INVESTMENT.

11. LABOR. THE LABOR PICTURE IN URUGUAY IS MIXED. THE EARLIER RADICAL LABOR ORGANIZATIONS HAVE BEEN DISBANDED, AND WHILE SEVERAL IMPORTANT LABOR UNIONS ACCEPTABLE TO THE GOVERNMENT REMAIN, THE GOVERNMENT HAS TO DATE NEITHER ANNOUNCED A NEW LABOR POLICY NOR PERMITTED NORMAL FREE LABOR ACTIVITY. AT THE SAME TIME, THE SOCIAL SERVICE OVERHEAD IN URUGUAY IS HIGH, INCREASING THE BASIC WAGE BILL OF AN EMPLOYER BY OVER HALF TO COVER CHARGES TO THE GOVERNMENT FOR THOSE SERVICES.

12. ECONOMIC SETTING AND PROSPECTS. THE MILITARY/  
CIVILIAN GOVERNMENT OF URUGUAY CONTINUES TO CARRY OUT  
ITS PROGRAM OF ECONOMIC REFORM DESIGNED TO REMOVE THE  
CAUSES OF SEVERAL DECADES OF STAGNATION. ITS NEW PROGRAM  
AIMS AT RESTORATION OF A MORE MARKET-ORIENTED ECONOMY  
AS THE ENGINE FOR AN EXPORT-LED DEVELOPMENT; IT HAS  
ALREADY ACHIEVED THE REMOVAL OF EXCHANGE CONTROLS AND  
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NEAR UNIFICATION OF THE EXCHANGE RATE. THE PRODUCT HAS  
BEEN RAPIDLY GROWING EXPORTS (AND IMPORTS), ACCUMULATING  
INTERNATIONAL RESERVES, NEAR FISCAL BALANCE AND STEADY  
BUT MODEST GROWTH. THESE ADVANCES HAVE BEEN ACHIEVED  
IN SPITE OF PETROLEUM (URUGUAY HAS NONE) PRICE RISES,  
LOSS OF IMPORTANT EX MEAT MARKETS AND PERSISTANCE OF AN  
INFLATION RATE WHICH HAS NOT MOVED DRAMATICALLY FROM A  
55 PERCENT AVERAGE OF THE 1975-77 PERIOD. LOOKING  
AHEAD, CONTINUED PROGRESS WILL DEPEND IMPORTANTLY UPON  
MAINTAINING THE EXPORT DRIVE EVEN THOUGH EXPORT INCENTIVES  
ARE BEING REDUCED AND UPON THE GOVERNMENT'S ABILITY TO  
DESIGN AND APPLY A SUSTAINABLE AGRICULTURAL POLICY.

13. AS FOR INVESTMENT POTENTIAL, URUGUAY CAN EXPLOIT  
SEVERAL ADVANTAGES IN PRESSING ITS EXPORT-CENTERED STRATEGY.  
THE COUNTRY COMPETITIVE ADVANTAGE CLEARLY LIES IN ITS  
LITERATE LABOR FORCE, STRATEGIC LOCATION BETWEEN ARGENTINA  
AND BRAZIL WITH ADEQUATE TRANSPORT INFRASTRUCTURE TO BOTH  
MARKETS, EASE OF LONG DISTANCE OCEAN TRANSPORT FOR BOTH  
EXPORTS AND IMPORTS THROUGH THE PORT OF MONTEVIDEO, AND  
AGRICULTURAL RESOURCES WHICH SHOULD SUPPORT A GROWING  
AGRO-INDUSTRIAL DEVELOPMENT. THERE HAVE BEEN GOOD EXPORT  
MARKETS IN THE MID-70'S FOR MANY MANUFACTURES AND SEMI-  
MANUFACTURES BASED ON URUGUAY'S AGRICULTURAL PRODUCTION --  
LEATHER PRODUCTS, PROCESSED FOODS, WOOLEN YARNS AND WOOLEN  
AND OTHER TEXTILES. SIMPLIFIED IMPORT PROCEDURES,  
DIMINISHING IMPORT BARRIERS, A MORE REALISTIC EXCHANGE  
RATE, AND OTHE SIGNS OF DIMISHING ECONOMIC CONTROLS BASED  
IN OFFICIAL POLICIES ALSO BRIGHTEN THE ONVESTMENT PICTURE.  
ON THE OTHER HAND, THE INTERNAL MARKET (UNDER 3 MILLION  
POPULATION) IS LIMITED AND EFFECTIVE INTERNAL DEMAND HAS  
DECLINED RECENTLY. FURTHERMORE THE IMPROVING ECONOMIC  
SETTING MUST BE MEASURED AGAINST THE ADMINISTRATIVE IN-  
EFFICIENCIES AND AT TIMES UNPREDICTABLE DECISIONS AT THE  
OFFICIAL LEVEL WHICH ARE ALSO ELEMENTS OF THE INVESTMENT  
CLIMATE IN URUGUAY.  
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## Message Attributes

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